

## Message Text

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ACTION EB-08

INFO OCT-01 ARA-10 ISO-00 AID-05 CIAE-00 COME-00  
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L-03 H-01 PA-01 AGR-01 EA-10 ITC-01 CTME-00 IO-13  
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P 082022Z AUG 78  
FM AMEMBASSY BOGOTA  
TO SECSTATE WASHDC PRIORITY 9385  
AMEMBASSY MEXICO PRIORITY  
TREASURY WASHDC PRIORITY

C O N F I D E N T I A L SECTION 1 OF 3 BOGOTA 7411

TREASURY FOR FISHER

EO 11652: GDS  
TAGS: PORG, ETRD, EINV, MX, IDB, ECIN, GATT, EPAP, XMB  
SUBJ: MEMORANDUM OF CONVERSATION: SECRETARY BLUMENTHAL'S TALK  
WITH MEXICAN SECRETARY OF FINANCE IBARRA

1. SUMMARY: MEMORANDUM OF CONVERSATION. PARTICIPANTS: MEXICO:  
DAVID IBARRA MUNOZ, SECRETARY OF FINANCE AND PUBLIC CREDIT,  
BERNARDO SEPULVEDA, DIRECTOR GENERAL, INTERNATIONAL AFFAIRS,  
MINISTRY OF FINANCE; UNITED STATES: W. MICHAEL BLUMENTHAL,  
SECRETARY OF THE TREASURY, VIRON P. VAKY, ASSISTANT SECRETARY  
FOR INTER-AMERICAN AFFAIRS, RICHARD FISHER, EXECUTIVE ASSISTANT  
TO SECRETARY BLUMENTHAL, US EMBASSY RESIDENCE, AUGUST 7, 1978.  
TOPICS DISCUSSED: IDB CAPITAL REPLENISHMENT, GATT MEMBERSHIP,  
COMPTROLLER'S PROPOSED RULING ON LEGAL LENDING LIMITS, GSP,  
TOMATO PACKAGING, EXIM BANK, ANTI-DUMPING PROCEDURES, US  
INVESTMENT IN MEXICO, US TAX BILL, US STATE RESTRICTIONS ON  
INVESTMENT.

2. IDB CAPITAL REPLENISHMENT. SECRETARY BLUMENTHAL BEGAN BY  
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EXPRESSING HIS HOPE THAT MEXICO, BRAZIL AND OTHER NATIONS WELL  
ON THE WAY TOWARD DEVELOPMENT WOULD CONTRIBUTE CONVERTIBLE  
CURRENCY TO THE FSO. SECRETARY IBARRA ANSWERED THAT WHILE MEXICO  
COULD COUNT UPON SUBSTANTIAL OIL INCOME IN THE FUTURE, IT STILL  
WANTED THE BANK TO PROVIDE SERVICE TO ALL COUNTRIES INVOLVED.  
WHEN SECRETARY BLUMENTHAL EXPLAINED THE IDB DECISION TO  
CONCENTRATE ITS RESOURCES ON LDC'S, IBARRA AGREED IN PRINCIPLE,

BUT OBJECTED THAT MEXICO WOULD FIND IT LESS EXPENSIVE TO RAISE MONEY THROUGH CAPITAL MARKETS THAN THROUGH THE IDB AND THAT THE IDB WOULD "SHRINK." AFTER EXPRESSING HIS SUPPORT FOR THE IDB DECISION, SECRETARY BLUMENTHAL REQUESTED A PLEDGE FROM MEXICO TOWARD THE FSO, WITH THE TIMING OF THE CONTRIBUTION ADJUSTED TO SUIT MEXICO. IBARRA INSISTED THAT IF THE US DID NOT COMPLY WITH IDB REQUESTS FOR FUNDS, ALL ITS MEMBERS WOULD BE IN TROUBLE. SECRETARY BLUMENTHAL ANSWERED THAT THE ABILITY OF THE US TO COMPLY WITH SUCH REQUESTS DEPENDED UPON WHAT OTHER NATIONS DID. RESTATING HIS POINT ABOUT US NON-COMPLIANCE WITH IDB FUNDS REQUESTS, IBARRA THEN COMPLAINED ABOUT THE LACK OF MEXICAN REPRESENTATION IN IMPORTANT IDB POSITIONS; BOTH PROBLEMS, HE WARNED, HAD CREATED POLITICAL DIFFICULTY FOR HIS GOVERNMENT. IN RESPONSE, SECRETARY BLUMENTHAL EMPHASIZED THE MANY RESOURCES CONTRIBUTED BY THE US TO DEVELOPMENT BANKS AND THE NEED TO TAKE REQUESTS FOR SUCH RESOURCES TO CONGRESS. US PAYMENTS IN ARREARS, HE SAID, WOULD BE MADE UP, BUT NOT WITHIN ONE YEAR. THE DANGER REMAINED, HE ADDED, THAT THE US CONTRIBUTION WOULD BE CUT BY CONGRESS. WHEN IBARRA SEEMED CONCERNED ABOUT SUCH A CUT, MR. FISHER EXPLAINED THAT THERE WOULD BE NO REDUCTION IN ABSOLUTE LEVELS OF LENDING TO MEXICO OR BRAZIL, BUT THAT THERE WOULD BE A REDUCTION IN SOFT LOANS. IBARRA ASKED IF THE LESS DEVELOPED COUNTRIES COULD UTILIZE LARGE AMOUNTS OF RESOURCES. THE IDB'S STAFF, SECRETARY BLUMENTHAL ANSWERED, WOULD WORK OUT ITS PLANS AND PRESENT THEM TO THE BANK'S BOARD. THE RESOURCES, HE ADDED, COULD BE USED EFFECTIVELY BY LDC'S; HENCE, MEXICO SHOULD GO AS FAR

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AS POSSIBLE IN ITS CONTRIBUTION, MAKING IT EASIER TO GET RESOURCES FROM THE US CONGRESS FOR MDB'S. SECRETARY BLUMENTHAL CONCLUDED THAT WITH THE ECONOMIC SITUATION OF MEXICO LOOKING BRIGHT, THE UNITED STATES NEEDED MEXICO'S HELP WITH THE SOFT LOAN WINDOW. AFTER DISCUSSION OF OTHER SUBJECTS, MR. SEPULVEDA CONTRASTED MR. FISHER'S STATEMENT ON SOFT LOANS WITH MR. BERGSTEN'S STATEMENT ON SOFT LOANS WITH MR. BERGSTEN'S STATEMENT THAT THE IDB WOULD CONCENTRATE ON THE POORER COUNTRIES, WHO WOULD RECEIVE ACCESS TO CONCESSIONAL RESOURCES, WHILE INTERMEDIATE COUNTRIES WOULD RECEIVE ACCESS TO CONVENTIONAL RESOURCES, AND ARGENTINA, MEXICO, AND BRAZIL WOULD "PHASE-OUT" AS FAR AS CONVENTIONAL RESOURCES WERE CONCERNED. SECRETARY BLUMENTHAL EXPLAINED THAT A PHASE-OUT WOULD TAKE A LONG TIME, DURING WHICH ACCESS TO CONVENTIONAL LENDING WOULD CONTINUE, BUT GRADUALLY DECREASE. MR. FISHER EXPLAINED THAT ONLY SOFT LOANS WOULD BE IMMEDIATELY PHASED OUT COMPLETELY, WHICH SEPULVEDA SAID HIS GOVERNMENT ALREADY KNEW. IBARRA AGAIN ASKED WHY MEXICO COULD GET MONEY MORE CHEAPLY THROUGH CAPITAL MARKETS THAN THROUGH THE IDB AND WHY SOME LOANS WOULD BE PHASED OUT. SECRETARY BLUMENTHAL ELABORATED ON THE DIFFERENCE BETWEEN FSO SOFT LOANS, FROM WHICH MEXICO WOULD RECEIVE NO BENEFITS, AND THE REGULAR LENDING OF THE IDB TO MEXICO, FOR WHICH THE PHASE-OUT TIMETABLE MUST BE DEFINED. IBARRA SAID THAT IT WOULD BE HARD TO

CONVINCE THE MEXICAN PEOPLE TO CONTRIBUTE CONVERTIBLE CURRENCY TO THE SOFT FUND OF THE IDB IF MEXICO COULD NOT RECEIVE CONVENTIONAL OR CONCESSIONAL LOANS THROUGH THE IDB. WHEN REMINDED BY SECRETARY BLUMENTHAL THAT MEXICO HAD EARLIER RECEIVED CONCESSIONAL LOANS, IBARRA RESPONDED THAT WHILE THE MEXICAN GOVERNMENT WAS WILLING, THE PROBLEM WOULD BE HARD TO EXPLAIN TO HIS PEOPLE. WHEN SEPULVEDA INQUIRED IF A DECLARATION MADE RECENTLY AT BONN MEANT THAT LOANS TO DEVELOPING COUNTRIES WOULD BE MADE ACCORDING TO COMMERCIAL TERMS, SECRETARY BLUMENTHAL EXPLAINED THAT COMMERCIAL TERMS WOULD BE APPLIED TO HARD LOANS, AN ARRANGEMENT WHICH SEEMED ADVANTAGEOUS TO SOME COUNTRIES, FOR THEY HAD SOUGHT SUCH LOANS. IT WOULD BE BETTER, IBARRA INSISTED, FOR MEXICO TO SEEK LOANS FROM THE CAPITAL MARKETS, BECAUSE IT WAS A NUISANCE TO GO THROUGH TIME-CONSUMING IDB PROCEDURES. SECRETARY BLUMENTHAL  
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POINTED OUT TWO ADVANTAGES OF THE IDB: POLITICAL REASONS AND THE NEED TO HELP OUT LESS DEVELOPED COUNTRIES.

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FM AMEMBASSY BOGOTA  
TO SECSTATE WASHDC PRIORITY 9386  
AMEMBASSY MEXICO PRIORITY  
TREASURY WASHDC

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3. GATT MEMBERSHIP: SECRETARY BLUMENTHAL BEGAN BY EMPHASIZING THE IMPORTANCE TO MEXICO OF THE FINAL

NEGOTIATIONS ON THE SUBSIDY/CVD CODE OF GATT. HE EXPLAINED THAT THE TREASURY DEPARTMENT MIGHT ASK CONGRESS TO AUTHORIZE AN INFURY TEXT. HE ALSO MENTIONED THAT AT THE END OF THE YEAR, THE US TREASURY DEPARTMENT'S RIGHT TO WAIVE COUNTERVAILING DUTIES WOULD EXPIRE. THE TREASURY DEPT., HE ADDED, WILL SEEK AN EXTENSION OR MORE FLEXIBLE AUTHORITY, BUT FAILURE WOULD LEAD TO DIFFICULTIES FOR WORLD TRADE AND US-MEXICO TRADE. IBARRA ANSWERED THAT HIS COUNTRY DID NOT SEE ANY ADVANTAGE IN PARTICIPATION BECAUSE LDC PARTICIPATION WAS LOW. MOREOVER, MEXICO KNEW THE FRAMEWORK OF THE ISSUES, BUT NONE OF THE DETAILS, AND, GIVEN DOMESTIC PUBLIC OPINION, IT WOULD NEED STRONG ARGUMENTS IN ORDER TO PARTICIPATE. HE EXPRESSED HIS INTEREST IN SUBSIDY/CVD ISSUE AND SAFEGUARDS, MENTIONING THAT MEXICAN UNDERSECRETARY OF COMMERCE, HECTOR HERNANDEZ, WOULD COME TO THE US TO STUDY THE PROBLEM. SECRETARY CONFIDENTIAL

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BLEMENTHAL PROMISED THAT HERNANDEZ WOULD BE GIVEN DETAILS ON EACH AREA IN WHICH MEXICO WAS INTERESTED. AFTER POINTING OUT THAT MEXICO WAS CHANGING ITS LICENSING PRACTICES, IBARRA SAID THAT THE LDC'S FELT THAT THEY WOULD NOT HAVE SUFFICIENT INFLUENCE IN THE NEGOTIATIONS TO MAKE PARTICIPATION WORTHWHILE, ESPECIALLY SINCE THE TOKYO AGREEMENT WAS NOT ADVANCING AND HAD NOT BEEN FULFILLED. SECRETARY BLUMENTHAL ASSURED HIM THAT THE TOKYO AGREEMENT WOULD BE PRESSED IN COMING MONTHS. WHEN IBARRA ASKED FOR CLARIFICATION ON SAFEGUARDS AND NON-DISCRIMINATION, THE SECRETARY TOLD HIM THAT THE SAFEGUARDS CLAUSE HAD NOT YET BEEN DETERMINED. IBARRA ASKED NEXT ABOUT MEXICO'S RIGHT TO SUBSIDIZE ADVANCING INDUSTRIAL SECTORS, AN IMPORTANT NEED OF HIS COUNTRY. SECRETARY BLUMENTHAL EXPLAINED THAT GATT NEGOTIATIONS WOULD RECOGNIZE THE SPECIFIC PROBLEM OF SUBSIDIES BY DEVELOPING COUNTRIES, BUT THAT IT WOULD BE EASIER FOR MEXICO TO INFLUENCE THOSE NEGOTIATIONS BY PARTICIPATING. IT WOULD BE A PROBLEM, IBARRA ANSWERED, TO GET INVOLVED AND TO RECEIVE NOTHING IN RETURN. BRAZIL, SECRETARY BLUMENTHAL CONTENDED, HAD TAKEN PART IN GATT. IBARRA REPLIED THAT BRAZIL HAD DIFFERENT WEAPONS AT ITS COMMAND AND THAT MEXICO COULD NOT OVERNIGHT DISMANTLE ITS PROTECTIVE SYSTEM. SECRETARY BLUMENTHAL AGREED, BUT STATED THAT IT WAS IMPORTANT THAT MEXICO MOVE IN THE DIRECTION OF DISMANTLING ITS PROTECTIVE SYSTEM.

4. STATUS OF COMPTROLLER'S PROPOSED RULING ON LEGAL LENDING LIMITS: WHEN SECRETARY BLUMENTHAL ASKED IF MEXICO WAS CONCERNED ABOUT THE REPORT, IBARRA ASKED

FOR MORE INFORMATION ON IT. SECRETARY BLUMENTHAL THEN  
EXPLAINED THAT THE REPORT WOULD NOT BE OUT FOR ONE  
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OR TWO MONTHS, BUT THAT THE FINAL VERSION WAS SIMILAR TO  
THE ONE PUBLISHED IN THE FEDERAL REGISTER AND DISCUSSED  
BY MEXICAN OFFICIALS DURING A US VISIT. HE ASSURED  
IBARRA THAT THE REPORT WOULD NOT HAVE A NEGATIVE IMPACT  
ON LENDING OF US BANKS IN MEXICO. IBARRA ASKED FOR  
A SPANISH TRANSLATION EARLY, BUT MR. FISHER EXPLAINED  
THAT THE US GOVERNMENT WOULD RELEASE IT WHEN PUBLISHED.

5. GSP: IBARRA MENTIONED THAT PAST GSP CONCESSIONS HAD  
HELPED MEXICO SLIGHTLY, BUT HE EMPHASIZED THAT IT WAS HARD  
FOR MEXICO TO PROFIT FROM GSP AND DIFFICULT TO PLAN ITS  
CAMPAIGN TO IMPROVE TRADE WITH THE US. SECRETARY  
BLUMENTHAL MENTIONED PLANNING FOR A REVIEW OF THE GSP  
LIST TO SEE HOW IT WOULD BE EXTENDED. IT WAS UNLIKELY,  
HE ADDED, THAT BIG CHANGES WOULD BE MADE. IBARRA THEN  
RAISED THE CASE OF SHOES FROM ITALY AND MEXICO, POINTING  
OUT THAT THEY RECEIVED THE SAME TARIFF TREATMENT, ALTHOUGH  
ONE WAS A MARGINAL EXPORTER OF SHOES AND THE OTHER A  
MAJOR EXPORTER OF SHOES. THE SECRETARY EXPLAINED THAT  
SOME PRODUCTS WERE HIGHLY SENSITIVE BECAUSE OTHER COUNTRIES  
THREATENED TO TAKE A LARGE PORTION OF THE DOMESTIC MARKET;  
HENCE, THE GOVERNMENT OF THE US HAD OBTAINED VOLUNTARY  
ARRANGEMENTS, AS FOR SHOES FROM THE FAR EAST. A PREFERENCE  
ON SHOES, HE ADDED, WOULD BE POLITICALLY UNACCEPTABLE IN  
THE US. HE POINTED OUT THAT THE US MARKET WAS OPEN AND  
THAT THE TREASURY DEPARTMENT HAD FOUGHT HARD TO AVOID QUOTAS  
FOR SHOES. MEXICO COULD COMPETE ON THE SAME TERMS AS THE  
OTHERS, WHILE GAINING AN ADVANTAGE FROM GEOGRAPHICAL PROXIMITY.

6. TOMATO STANDARDS: IBARRA EXPRESSED HIS CONCERN ON  
PROBLEMS RELATING TO PACKING OF TOMATOS. ASSISTANT SECRETARY  
VAKY EXPLAINED THAT THE QUESTION INVOLVED JOINT  
STUDIES ON STANDARDS FOR QUALITY, PACKING,  
AND GRADING OF TOMATOES, A STUDY ENCOURAGED BY SENATOR  
STONE OF FLORIDA. MEXICO, IBARRA SAID, CONSIDERED  
THE STUDY AS A TRICK TO HALT MEXICAN EXPORTS TO THE US.  
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SECRETARY BLUMENTHAL, AFTER PROMISING TO LOOK INTO THE  
PROBLEM, ASKED IF IT WAS IMPORTANT. IBARRA SAID  
THAT TOMATO INDUSTRY WAS VERY IMPORTANT ON MEXICO'S  
PACIFIC COAST. WHEN ASSISTANT SECRETARY VAKY SAID

THE PROBLEM WAS AN EXAMPLE OF A POLITICALLY SENSITIVE ITEM, IBARRA RESPONDED THAT MOST EXPORTS TO THE US WERE POLITICALLY SENSITIVE. WHEN SECRETARY BLUMENTHAL ASKED IF MEXICO'S EXPORT VOLUME TO THE US WAS INCREASING, IBARRA ANSWERED THAT WHILE IT WAS INCREASING, PLANNING WAS DIFFICULT. SECRETARY BLUMENTHAL THEN ELABORATED ON THE US TRADE DEFICIT OF 30 BILLION DOLLARS, RELATED IT TO THE INSTABILITY OF THE DOLLAR AND TO THE LIMITING US FEAR OF VIGOROUSLY LIBERALIZING ITS TRADE.

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FM AMEMBASSY BOGOTA

TO SECSTATE WASHDC PRIORITY 9387

AMEMBASSY MEXICO PRIORITY

TREASURY WASHDC PRIORITY

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7. EXPORT-IMPORT BANK: IBARRA MENTIONED HIS CONCERN WITH EXIM CLAUSE LIMITING MEXICAN EXPORTS TO THE US. ASSISTANT SECRETARY VAKY EXPLAINED THAT THE EXIM COULD NOT FINANCE EXPORTS OF PRODUCTS INTENDED TO COMPETE WITH US PRODUCTS. SECRETARY BLUMENTHAL ADDED THAT THE RESTRICTION WAS AN OLD ONE. THE IBARRA REFERRED TO THE EMOTIONAL SETTING IN MEXICO FOR THE ISSUE. WHEN SECRETARY SAID THAT THE PROBLEM MUST BE TAKEN CASE-BY-CASE, IBARRA ANSWERED THAT THE PROBLEM INVOLVED GENERAL FEELING BY MEXICANS. THE SECRETARY OF THE TREASURY SUGGESTED THAT IBARRA TALK TO JOHN MOORE AS THE EXIM WAS GOING TO EXPAND OPERATIONS AND POSSIBLY HAD ALREADY DONE SO IN MEXICO, BUT IBARRA COUNTERED THAT HE HAD ALREADY TALKED TO MOORE AND THAT THE US WAS LOSING OUT IN MEXICAN INVESTMENT TO JAPAN.

8. ANTI-DUMPING AND CVD: IBARRA ASKED FOR ADVANCE NOTICE OF

ANTI-DUMPING OR CVD ACTION BY THE US. SECRETARY BLUMENTHAL EXPLAINED PROCEDURES FOR ANTI-DUMPING DECISION AND EXPLAINED THAT COUNTRY OR COMPANY INVOLVED WOULD SURELY BE NOTIFIED DURING INVESTIGATION. IBARRA MENTIONED STEEL PIPES, SAYING US CONFIDENTIAL

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HAD RESTRICTED THEIR IMPORTATION. SECRETARY BLUMENTHAL PROMISED TO LOOK INTO PROBLEM, BUT SAID THAT IF ANTI-DUMPING ACTION TAKEN, COMPANY WOULD KNOW IT.

9. US INVESTMENT IN MEXICO: IBARRA SAID THAT MEXICO NEEDED US FUNDS. SECRETARY BLUMENTHAL THEN ASKED IF THERE HAD BEEN A DECLINE IN US PRIVATE INVESTMENT IN MEXICO. WHEN IBARRA ANSWERD YES, SECRETARY BLUMENTHAL ASKED FOR AN EXPLANATION. NOT RECEIVING ONE FROM IBARRA, HE ATTRIBUTED THE PROBLEM TO UNCERTAINTIES EMANATING FROM MEXICANIZATION. WHEN IBARRA INSISTED THAT MEXICANIZATION WAS WORKING, THE SECRETARY OF THE TREASURY ANSWERED THAT HE WAS NOT BEING CRITICAL, BUT MERELY WAS TRYING TO EXPLAIN THE PROBLEM. HE THEN POINTED OUT TO IBARRA THAT INVESTMENT IN THE US WAS FALLING BECAUSE PEOPLE WERE CAUTIOUS AND ASKED IBARRA WHAT WERE THE AREAS OF HIGH PRIORITY FOR ATTRACTING US INVESTMENT. WHEN IBARRA LISTED COPPER PRODUCTS, PETRO-CHEMICALS, PULP AND PAPER, AUTO PARTS, SECRETARY BLUMENTHAL ASKED IF THE LAST WAS A PRIORITY INDUSTRY. IBARRA EXPLAINED THAT THE PARTS INDUSTRY HAD GROWN MORE SLOWLY THAN OTHER SECTORS OF THE AUTOMOBILE INDUSTRY. FINALLY, SECRETARY BLUMENTHAL MENTIONED THAT TO ENCOURAGE EXPORTS, MEXICO ENLARGES THE DOMESTIC AUTO PRODUCTION QUOTA ACCORDING TO EXPORT SALES.

10. US TAX BILL: SEPULVEDA EXPRESSED WORRY ON GENERAL TREND IN US FISCAL POLICY TO DISCOURAGE US INVESTMENT ABROAD. SECRETARY BLUMENTHAL INSISTED THAT THE US GOVERNMENT WAS NEUTRAL ON ENCOURAGING INVESTMENT EITHER BY US CITIZENS ABROAD OR BY FOREIGNERS IN THE US. HE ADDED THAT THE PROPOSAL TO END TAX DEFERRALS FOR FOREIGN INVESTMENT HAD NO CHANCE TO PASS. HE CONCLUDED THAT US POLICY WOULD NOT CHANGE, BUT THAT MEXICO WOULD BECOME MORE STABLE AND THAT MEXICAN LEGISLATION WOULD BE IMPORTANT IN DETERMINING THE LEVEL OF US INVESTMENT THERE. WHEN IBARRA ASKED FOR US GOVERNMENT PROMOTION OF US INVESTMENT IN MEXICO, CONFIDENTIAL

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SECRETARY BLUMENTHAL SAID THAT IT WOULD BE DIFFICULT TO DO SO.

11. US STATE RESTRICTIONS ON INVESTMENT: IBARRA MENTIONED THAT CERTAIN STATES IN US RESTRICTED INSTITUTIONAL INVESTMENT IN CERTAIN COUNTRIES. HE USED AS AN EXAMPLE A NEW YORK LAW RESTRICTING

INSTITUTIONAL INVESTMENT IN MOST COUNTRIES TO ONE PERCENT OF  
CERTAIN INDUSTRIES AND COMPLAINED ABOUT A NEW YORK EXCEPTION  
ALLOWING UP TO TEN PERCENT IN CANADIAN INDUSTRIES. SECRETARY  
BLUMENTHAL PROMISED TO LOOK INTO THE PROBLEM.  
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## Message Attributes

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